

WASHINGTON (June 19) - Congressman Spencer Bachus (AL-6), Chairman of the House Financial Services Committee, today delivered the following statement at the committee's hearing on bank supervision and risk management in relation to the recent JPMorgan Chase trading loss:

"Today the Committee meets to examine bank supervision and risk management in light of the recent trading loss at JP Morgan Chase."When America's largest bank reveals it has suffered an unexpected loss of more than \$2 billion, it understandably generates concern and raises questions not only about the bank's risk management controls and corporate governance but also the action – or inaction as the case may be – of the regulators.

"While the size of the reported loss is a small fraction – just 1/1000th of JP Morgan's total assets – this episode serves as a reminder that no institution – no matter how well managed – is immune from mistakes that are, to use Mr. Dimon's words, 'stupid,' 'sloppy' and the result of 'bad judgment.'

"But even more importantly, this should remind all of us about the importance of making sure it is the bank and its shareholders -- not the taxpayers -- who pay for such mistakes.

"Fortunately, these losses are not being borne by the taxpayers, but by JP Morgan. Since the losses were disclosed, the company has lost \$23 billion in market capitalization and suffered reputational harm in the marketplace, and employees involved in the problematic trades have lost their jobs.

"This is how the system is supposed to work: those who take the risk are the ones who suffer the loss or realize the gain. It stands in stark contrast to the regime of taxpayer-funded bailouts with privatized profits and socialized losses we've experienced in the cases of AIG, GM, Fannie Mae, Freddie Mac and Solyndra.

"Because the bank has more than sufficient capital, taxpayers are protected from a bailout and the overall financial system is protected from being brought down by the

mistakes of an institution that is deemed Too Big to Fail.

"That is why the most important lesson to be learned from this incident has nothing to do with any of the 400-plus rules found in the 2,300-page Dodd-Frank Act. The most important lesson is how central capital is to the safety and soundness of individual banks and our overall financial system.

"A bank with sufficient capital is able to absorb losses, whether those losses are caused by external factors beyond the institution's control or internal problems caused by poor risk management. A bank with sufficient capital is not a threat to the financial system even if regulators fail to do their jobs. And a bank with sufficient capital can take risks without putting taxpayers in jeopardy.

"Just as JP Morgan should be (and is being) held accountable for its risk management failures, accountability must also be demanded of the Federal regulators who oversee the bank's activities. Unfortunately, because the Dodd-Frank Act failed to consolidate and streamline the current convoluted and chaotic regulatory structure, as House Republicans proposed, achieving regulatory accountability is every bit as difficult now as it was during the height of the financial crisis.

"How inefficient and fragmented is the current regulatory framework? Well, sitting before us today are five different regulators, all of whom have some supervisory responsibility over these trades and several of whom have examiners embedded at JP Morgan – but *no ne* of whom, apparently, was either aware of the bank's hedging strategy or raised concerns about it.

"Perhaps the complexity – of the trades, of the regulatory structure, of the rules themselves – makes it impossible for the regulators to adequately do their jobs. After all, the Volcker Rule proposal is, by itself, staggering in its length and complexity. And, more than a month after this loss was disclosed, the regulators still cannot say whether the Volcker Rule would have prevented JP Morgan from making these trades.

"Contrast this complexity with the simplicity of capital. Capital is our greatest

protection against the systemic risk posed by institutions that are Too Big to Fail. I am pleased we will have the opportunity to discuss this issue today with our witnesses, and I thank them for being here.

"Before closing, once again I want to re-emphasize the point that JPMorgan and its shareholders – not the bank's clients, and more importantly, not the taxpayers – are the ones paying for the bank's mistakes. This is how the system is supposed to work."

To view excerpt from Congressman Bachus' committee statement, [click here](#).